

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-06 FRB-01 INR-05 IO-10 NEA-06 NSAE-00 RSC-01

OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 SWF-01

OMB-01 STR-01 FEAE-00 INT-05 AGR-05 L-02 /081 W

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R 131833Z DEC 74

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DEPT PASS TREAS FOR MCCAMEY

E.O.11652: N/A

TAGS: EFIN, OECD

SUBJECT: COMMITTEE ON MONETARY AND FOREIGN EXCHANGE
MATTERS

REFS: (A) CMC(74)1

(B) CMC(74)8

1. SUMMARY. MOST OF DAY-LONG MEETING COMMITTEE ON
MONETARY AND FOREIGN EXCHANGE MATTERS (CMC) CONSISTED OF
TOUR D'HORIZON ON RECENT DEVELOPMENTS IN EXCHANGE
MARKETS DURING WHICH NO NEW INFORMATION WAS PROVIDED
EITHER BY SECRETARIAT OR MEMBER COUNTRIES. CMC ALSO
DISCUSSED QUESTION OF (A) FUTURE OF GUARANTEE AND (B)
CONTINUATION OF COMMITTEE ITSELF, THERE BEING LITTLE
ENTHUSIASM IN CONTINUATION OF GUARANTEE AND ONLY
MINIMAL INTEREST IN CONTINUATION OF CMC. BUDGET CON-
SIDERATIONS AND DUPLICATION OF EFFORT WERE RAISED AS
MAJOR REASONS FOR PUTTING CONTINUED EXISTENCE OF CMC IN
DOUBT. COUNTRIES ARE REQUESTED TO SEND THEIR POSITIONS
ON QUESTIONS (A) AND (B) ABOVE TO SECRETARIAT BY MID-
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MARCH 1975. SECRETARIAT WILL THEN PREPARE

REPORT FOR CONSIDERATION AT SUBSEQUENT CMC MEETING IN APRIL OR MAY, AT WHICH TIME FINAL REPORT (REF A) WOULD ALSO BE COMPLETED AND FORWARDED TO COUNCIL. END SUMMARY.

2. EXCHANGE MARKET DEVELOPMENTS: DISCUSSION OF EXCHANGE MARKET DEVELOPMENTS REVOLVED AROUND ESTIMATED MOVEMENTS OF OIL COUNTRY SURPLUSES (TABLE L, REF B), WITH NEITHER SECRETARIAT NOR DELEGATIONS PROVIDING SIGNIFICANT NEW DATA. THERE WERE ALSO SPOTTY DISCUSSIONS OF FEW MINOR TECHNICAL POINTS CONCERNING ENDING OF BRITISH STERLING GUARANTEES, REASONS FOR EXCEPTIONALLY HIGH INTEREST RATES IN EURO-FRANC MARKET (PROBABLY DUE TO CARRY-FORWARD OF EARLIER SPECULATIVE POSITIONS) AND REVIEW OF SWISS PROBLEMS IN MONETARY MANAGEMENT DUE TO EFFECT OF CAPITAL FLOWS BEFORE SAME WERE REDUCED BY NEW SWISS RESTRICTIONS. SEVERAL SMALLER COUNTRIES GAVE BALANCE-OF-PAYMENTS PROJECTIONS TO 1975 (DENMARK - EXPECTS \$3 BILLION DEFICIT 1975 AND PREFERENCES NOT TO USE ANY OF \$6 BILLION RESERVES IN FINANCING SAME; FINLAND - SINCE USSR MAIN OIL SUPPLIER AND TRADE AGREEMENTS AUTOMATICALLY INCREASE VALUE AND VOLUME FINNISH EXPORTS TO USSR IN LINE WITH INCREASED VALUE OF IMPORTS PETROLEUM PRODUCTS, NO BILATERAL OR MULTILATERAL DEFICIT EXPECTED.)

3. FUTURE OF CMC AND GUARANTEE: CMC DECIDED TO POSTPONE REVIEW OF ITS FIRST ANNUAL REPORT (REF A). CMC THEN DISCUSSED RELATED QUESTIONS OF FUTURE OF EXCHANGE GUARANTEE AND FUTURE OF CMC ITSELF. SMALLER COUNTRIES WISHED TO SEPARATE QUESTION OF EXCHANGE GUARANTEE FROM THAT OF CONTINUATION OF CMC. THOSE SUPPORTING CONTINUATION OF CMC ITSELF INCLUDED AUSTRIA, PORTUGAL, NEW ZEALAND, TURKEY. REASONS GIVEN WERE STANDARD ONES THAT QUESTIONS OF MONETARY POLICY AND EXCHANGE MARKET DEVELOPMENTS NOT REALLY DISCUSSED IN ANY OTHER OECD FORUM OPEN TO SMALLER COUNTRIES NOT ON WP-3. MOST COUNTRIES (AUSTRALIA, U.S., FINLAND, DENMARK, ITALY, IRELAND, NORWAY, CANADA, NETHERLANDS, BELGIUM, UK, SWITZERLAND, GERMANY AND JAPAN) GENERALLY FELT CONTINUATION OF GUARANTEE WOULD SERVE NO USEFUL PURPOSE, AND MANY ALSO LIMITED OFFICIAL USE

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MOST FELT CMC WAS SERIOUS WASTE OF RESOURCES IN PERIOD OF BUDGET RESTRAINT. FRENCH DELEGATION NOTED THAT WORK OF CMC COULD BE STRUCTURED SO AS NOT TO DUPLICATE THAT OF WP-3 AND WEAKLY SUPPORTED USE OF CMC AS PLACE FOR NON-WP3 MEMBERS TO REVIEW RELATED DEVELOPMENTS. HOWEVER, SEVERAL OTHERS NOTED THAT IT WAS DIFFICULT TO DISCUSS MONETARY POLICY ON ITS OWN, ESPECIALLY IN SMALLER COUNTRIES, IN ABSENCE OF PARALLEL TREATMENT OVERALL ECONOMIC AND

FISCAL POLICY QUESTIONS. CANADIAN REP SUGGESTED
SECRETARIAT TRY ESTABLISH TERMS OF REFERENCE OF CMC MORE
EXPLICITLY SO SAME COULD BE CONSIDERED IN CAPITALS ALONG
WITH CURRENT REVIEW OF OECD BUDGET. U.S. REP SUGGESTED
NEEDS OF SMALLER COUNTRIES COULD BE MET BY APPROPRIATE
DISCUSSIONS IN OTHER ALREADY EXISTING PLENARY COMMITTEES,

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OMB-01 STR-01 FEAE-00 INT-05 AGR-05 L-02 /081 W

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ESPECIALLY IF GUARANTEE IS ALLOWED TO LAPSE NOW THAT
FLOATING RATES HAVE MADE IT IMPOSSIBLE TO APPLY. MOST
ANTI-CMC COUNTRIES AGREED, SEVERAL SUGGESTING THAT
PERIOD OF FLOATING RATES WOULD PROBABLY LAST LONG WHILE,
REDUCING NEED FOR KIND OF EXCHANGE MARKET DISCUSSIONS
INITIALLY ENVISIONED WHEN CMC AND GUARANTEE FIRST
ESTABLISHED. SEVERAL ANTI-CMC COUNTRIES (UK, SWITZER-
LAND) INDICATED THEY COULD ACCEPT CONTINUATION OF CMC
AS COURTESY TO NON-WP3 COUNTRIES. HOWEVER, THEY DID NOT
EXPECT TO STAFF CMC WITH EXPERTS IN DOMESTIC MONETARY
POLICY, RATHER WOULD CONTINUE TO SEND FOREIGN EXCHANGE
DEPARTMENT EXPERTS. UK REP FELT CMC HAD ALREADY STRAYED
TOO FAR INTO DOMESTIC MONETARY POLICY. GERMAN REP

INDICATED ANY ATTEMPTS TO DISCUSS MONETARY POLICY MORE BROADLY IN CMC WOULD REQUIRE PARTICIPATION BY HIGHER LEVEL POLICY OFFICIALS, WHICH WAS PROBABLY NOT FEASIBLE.

4. CMC AGREED TO SECRETARIAT PROPOSAL THAT ALL COUNTRIES SUBMIT THEIR VIEWS IN WRITING ON TWO QUESTIONS SEPARATELY: (A) CONTINUATION OF EXCHANGE GUARANTEE; (B) CONTINUATION OF CMC, WITH EXPLANATION OF TERMS OF LIMITED OFFICIAL USE

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REFERENCE DESIRED FOR CMC IF IT IS DESIRED THAT CMC CONTINUE. SECRETARIAT ESPECIALLY STRESSED THAT COUNTRIES SHOULD NOT AT SAME TIME PUT ADDITIONAL PRESSURE ON SECRETARIAT TO HOLD DOWN BUDGET WHILE ALSO REQUESTING CONTINUATION OF MARGINAL ACTIVITIES. SECRETARIAT WAS INSTRUCTED TO SEND LETTER TO ALL DELEGATES REQUESTING ABOVE INFORMATION BY MID-MARCH. NEXT MEETING LEFT OPEN BUT EXPECTED TO BE HELD IN MID-APRIL OR EARLY MAY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN EXCHANGE, COMMITTEE MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974OECDP30050
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740363-0090
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741237/aaaabfdq.tel
Line Count: 192
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 74 CMC(7)
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 06 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 MAY 2002 by boyleja>; APPROVED <27 MAR 2003 by CunninFX>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COMMITTEE ON MONETARY AND FOREIGN EXCHANGE MATTERS
TAGS: EFIN, OECD, CMC
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005